The Conference Board
Economic Road Maps

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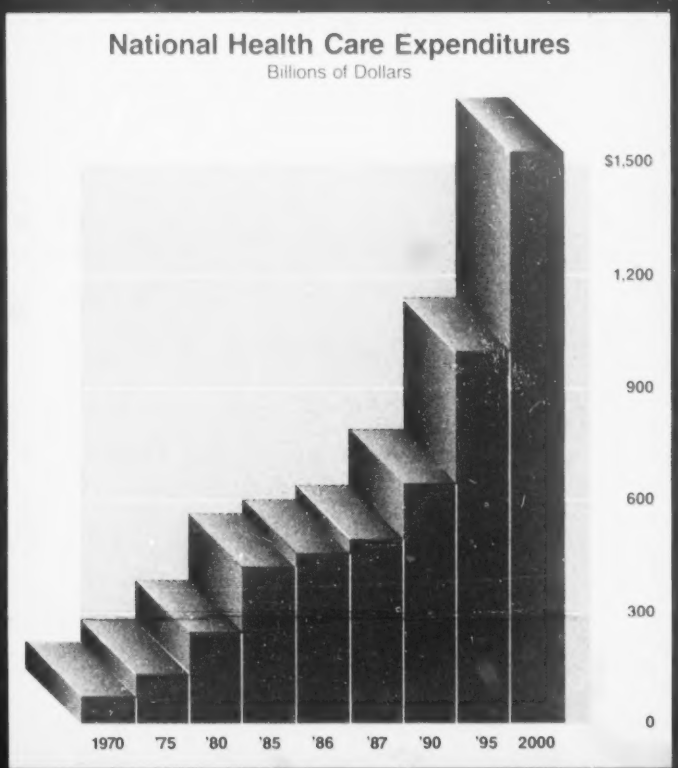
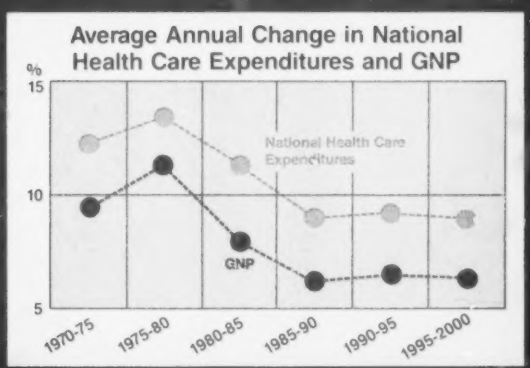
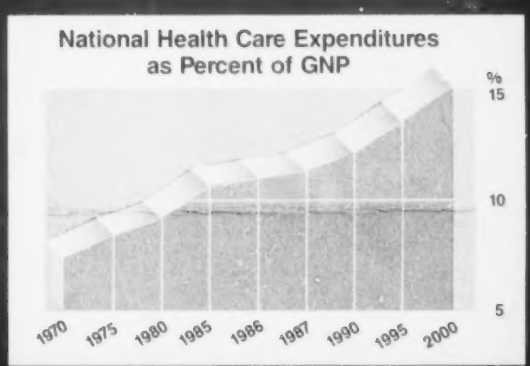
National Health Care Expenditures

Nos. 2025-2026 February, 1989

Despite years of efforts to curb costs, spending on health care in the United States continues to escalate. Expenses for health care rose from $70 billion in 1970 to $248 billion in 1980; they have since doubled, to $500 billion in 1987. Increases in health care expenditures are expected to slow somewhat, as a result of new government and private sector programs and an overall lower rate of inflation. Nevertheless, the Health Care Financing Administration projects the nation's health bill to rise to over $1.5 trillion by the year 2000. Financing outlays of such magnitude will be progressively harder to meet by all concerned—consumers and employers as well as the government.

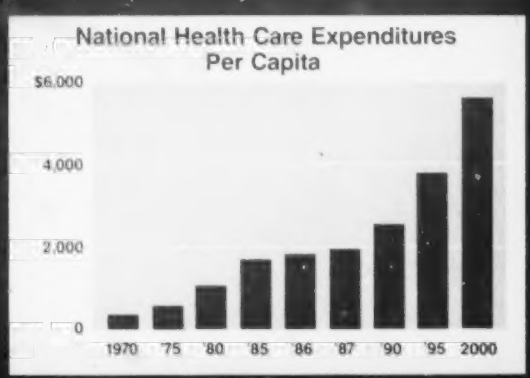






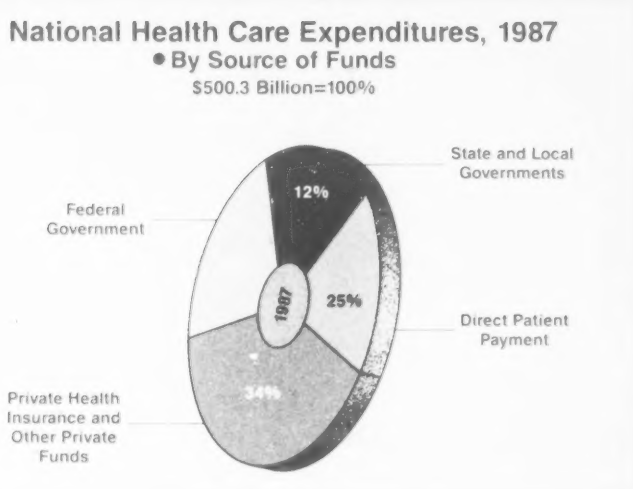
Adequate health care has come to be perceived as a right rather than a benefit. Thus, in spite of the projected slowdown in their rate of growth, health care costs will absorb an ever increasing share of the nation's resources. They are expected to account for 15% of gross national product (GNP) in the year 2000, or twice their 1970 share. The rising share of health care spending in total GNP reflects gains in both the quality and the quantity of health care. Other factors contributing to a higher health bill include a rise in the share of the elderly who are disproportionately large users of health care; increasingly sophisticated and high-priced medical technology and life-sustaining equipment; and more and costly medical tests.

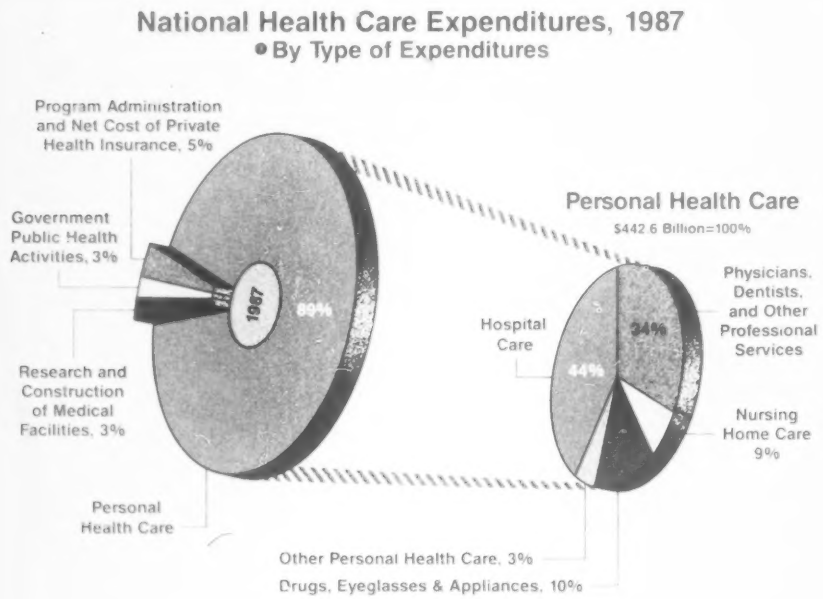
So far, U.S. consumers have shown little interest in slowing the



sky-rocketing cost of health care. They have been largely insulated from the true cost of their health bills, since private insurance companies or government-funded programs have paid most or all of the cost. In the private sector, many workers have access to health care as an untaxed fringe benefit. Besides, patients have little control over the amount of health care they purchase, which in most cases is determined by their doctor.

Private industry, hit by ever-escalating rate raises, has tried to cope by implementing programs to contain the rapid growth of in-patient care. New types of group health plans were introduced, such as health maintenance organizations (HMO), preferred provider organizations (PPO), and managed fee for service. Private employers have increased cost-sharing by raising deductibles and





(Direct payments include co-payments and deductibles required by many third-party payers).

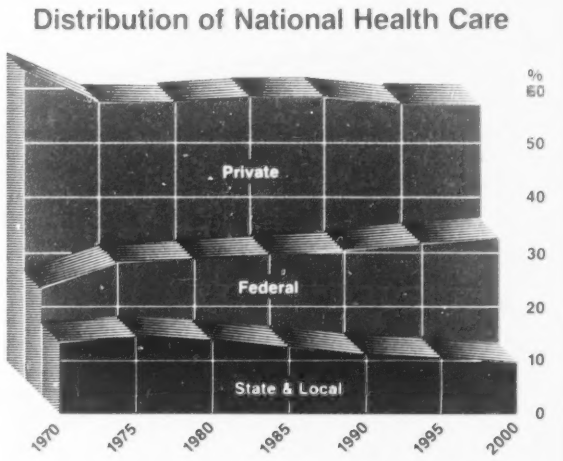
Private insurance was the single largest payer for health care, with $158 billion in premiums by employers, workers, and individuals during the year. But while over 200 million people are covered by some form of insurance, an estimated 37 million remain without coverage.

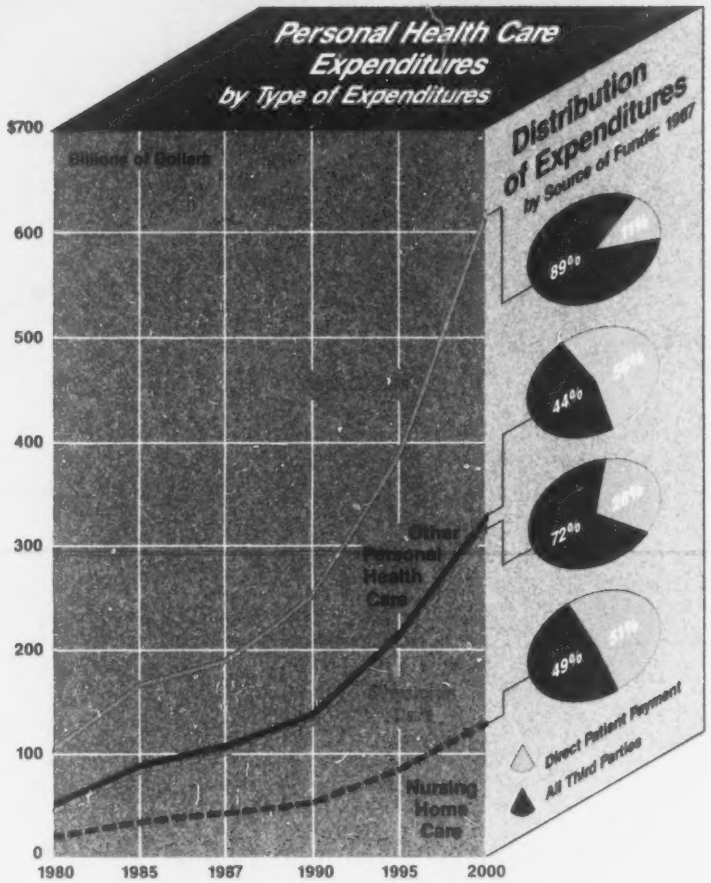
Payments by Medicare and Medicaid, the two largest government programs, totaled $83 billion and $52 billion in 1987, and are expected to rise to $321 billion and $138 billion, respectively, by the year 2000.

The major part of health care expenditures in 1987, or $443 billion, consisted of personal health care or

requiring second opinions. On the government side, Medicare has implemented the Prospective Payment System (PPS). Under this system, the federal government pays a fixed price for a patient's hospital stay instead of reimbursing hospitals for incurred costs. These efforts helped to reduce the growth of in-patient hospital service, but the corresponding increase in ambulatory services resulted, on balance, in continued real growth in health care costs.

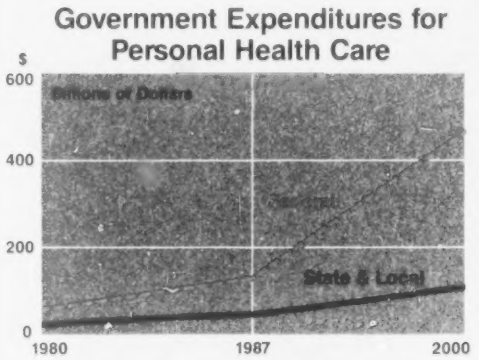
Health expenditures per capita were $1,900 in 1987, compared with $500 in 1970, and are expected to escalate to almost $6,000 per capita by the year 2000. The federal and state and local governments were the source of 40% of the money spent on health care in 1987; together with private insurance and other private sources, government spending accounted for three quarters of all payments for health care. Only a quarter of the total was paid directly by the patients.

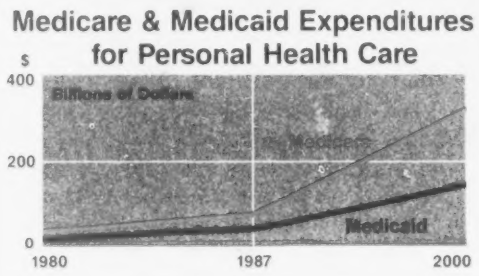


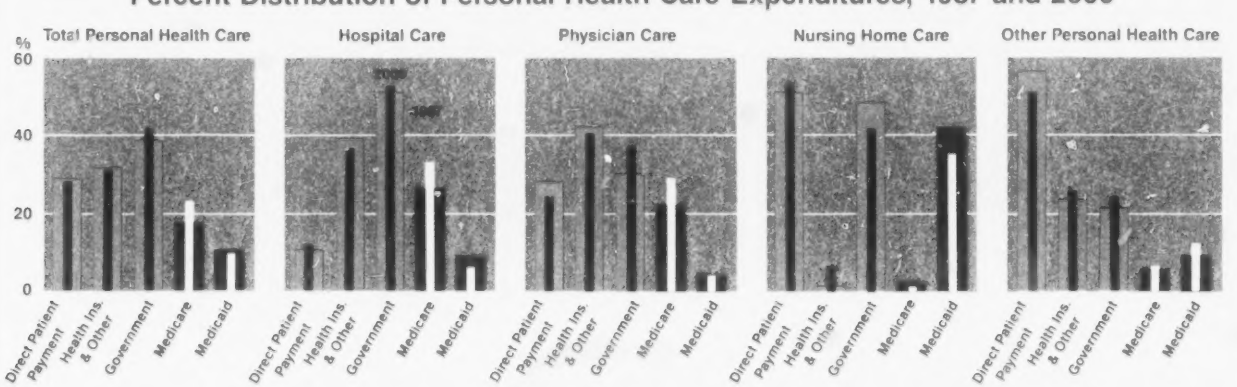


direct provision of medical care goods and services. Hospital care was by far the largest category in this group, at $195 billion, 90% of which was covered by third-party payments; in contrast, only about one half of doctors' services was covered by third parties. Medicare funded 18% of all personal health expenditures, with Medicaid, a jointly funded federal and state program, paying for 11%.

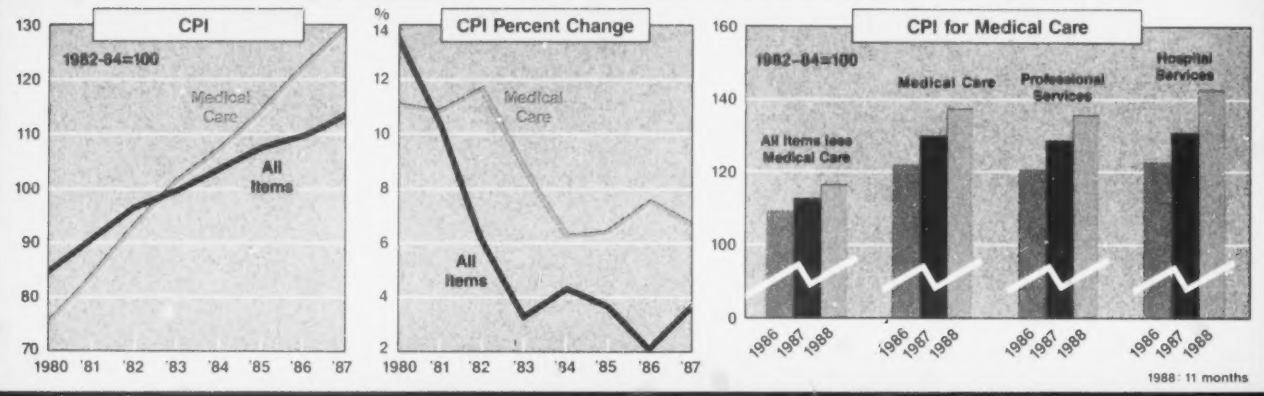
The relationship between health care expenditures and overall health is not clear. The United States spends a substantially larger share of its output on health care than other countries, but does not necessarily deliver better care to its citizens. Thus, such highly sensitive indicators of national health as child mortality and life expectancy in the United States have not improved dramatically relative to other advanced countries. While life expectancy is a great deal higher than the world average, it is lower than that of Japan, and child mortality, while declining sharply since the 1970s, is still higher than in most other highly industrialized countries. The fact remains that no country, regardless of its wealth, can spend an unlimited amount on increasingly expensive medical care. The problems of the U.S. system of health care delivery (such as the lack of coverage for part of the population and the continuing rise in health care spending) are generally acknowledged, and remedies are being sought. Suggestions range from the introduction of a basic medical service for everyone, with the cost shared by all but the very



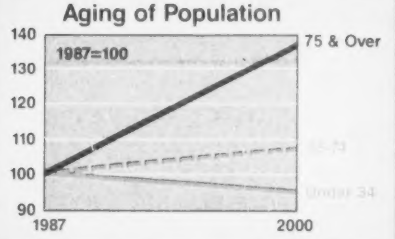




Cost of Medical Care and the Consumer Price Index (All Urban Consumers)



Aging of Population

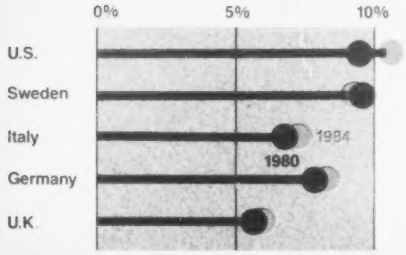


poor, to a fully government-funded system, similar to Canada's. Under this system the government sets the fees, with patients free to choose doctors and hospitals, and no money changes hands between doctor and patient.

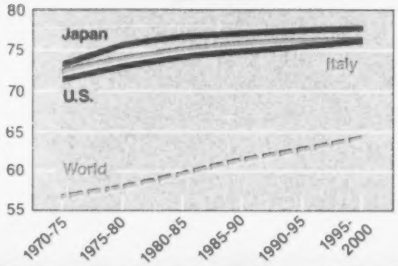
Eva Culen

Sources: Health Care Financing Administration; U.S. Department of Labor; United Nations; The Conference Board.

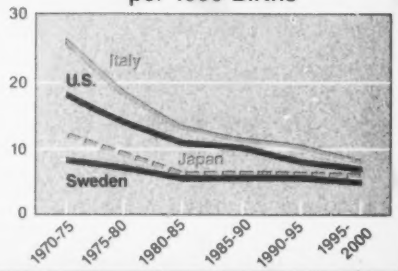
Health Care Expenditures as % of GDP



Life Expectancy at Birth



Infant Mortality per 1000 Births



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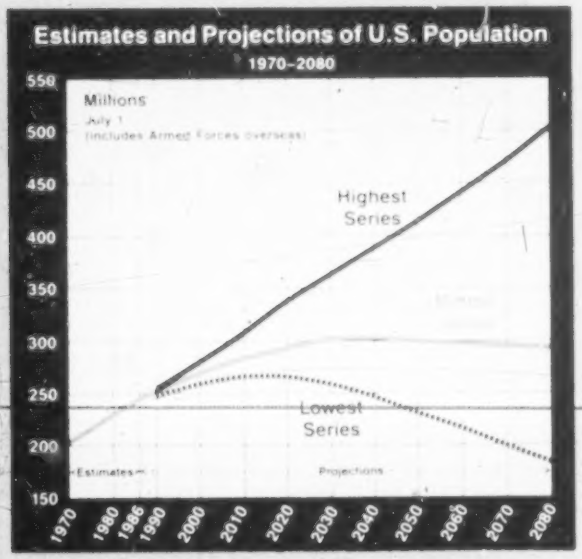
U.S. Population in the 21st Century

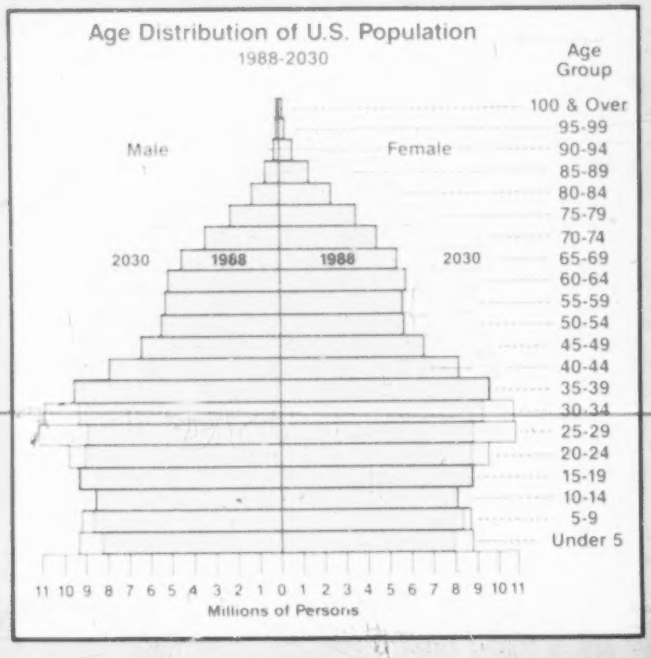
Nos. 2027-2028 June, 1989

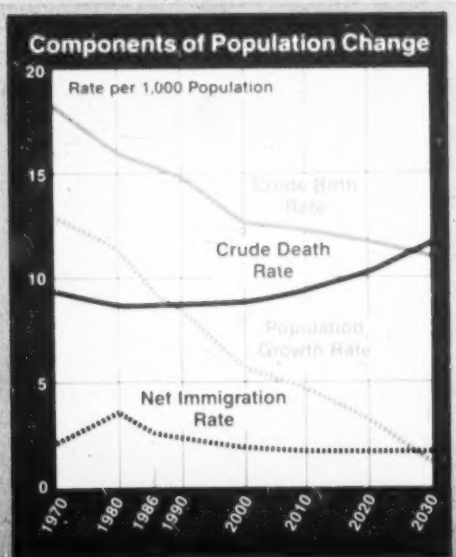
The Census Bureau recently released new projections of the size and composition of the U.S. population to the year 2080. The projections are based on July 1, 1986, population estimates and various assumptions about fertility, mortality, and net immigration. The Bureau prepared several versions based on different assumptions; this Road Map utilizes the middle, or most realistic, series.

According to this series, the U.S. population will continue to grow through the end of this century and peak at 302 million in 2038. Thereafter, it will decline for the first time in history, to 292 million in 2080.

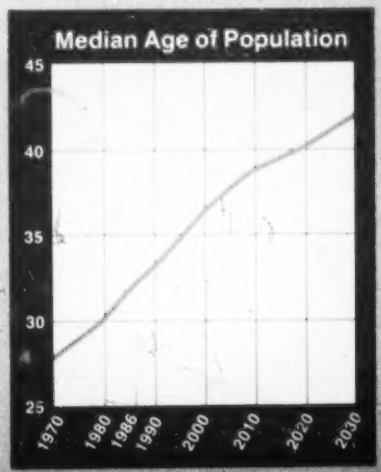
Major highlights of the projections about the size and composition of the population are summarized below:

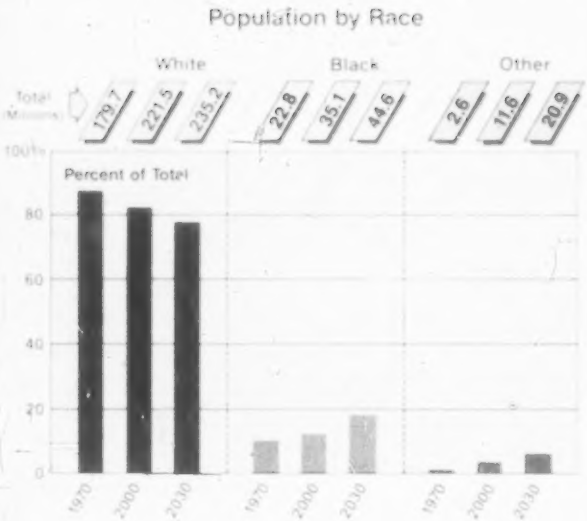


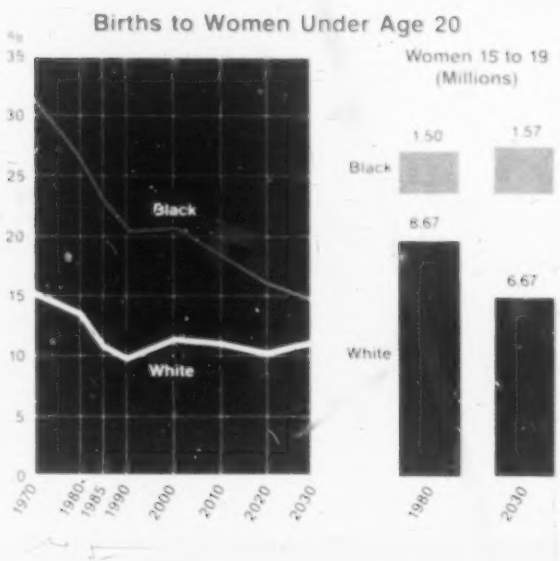


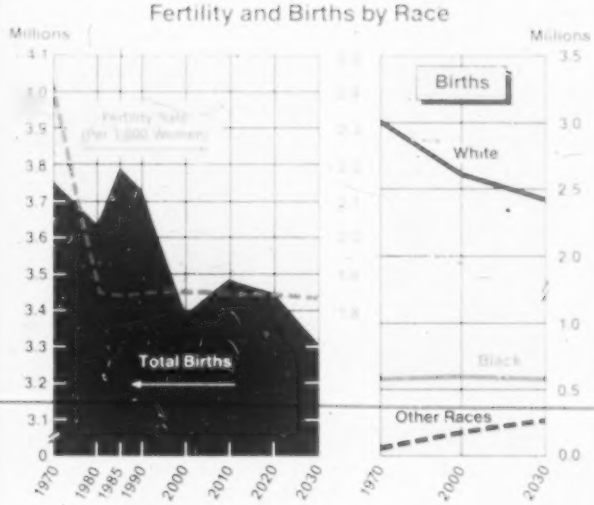


• Fertility is by large measure determined by social and economic trends; factors such as participation in the labor force, educational attainment, and age at first marriage are all determinants of fertility. The number of births is projected to decline sharply between now and 2030, in spite of a steady fertility rate over the period. The decline of women in the primary childbearing age group accounts for most of that drop. Births to white women are expected to decline by 19% between 1988 and 2030 to 2.4 million; births to black women, on the other hand,





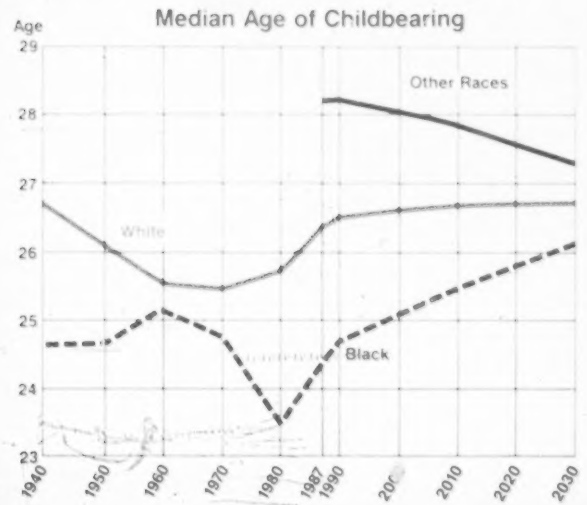


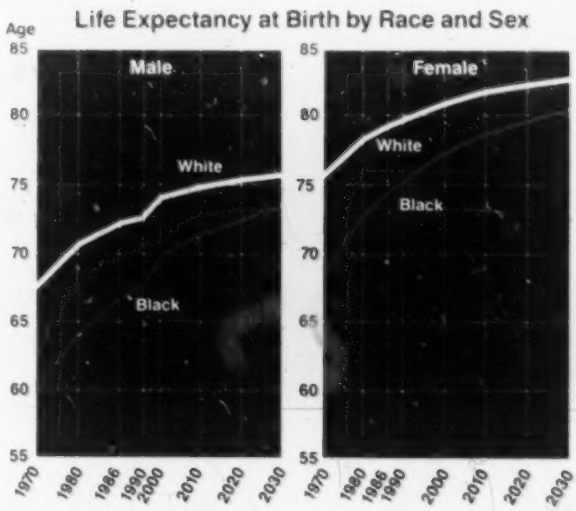


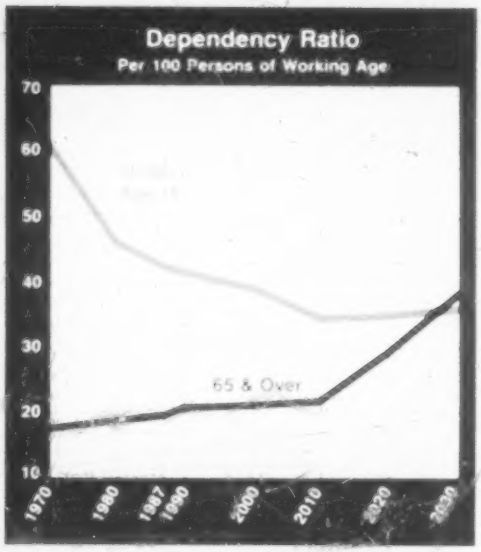
are projected to remain at about 600,000 per year for the next half century; births to women of other races should increase dramatically—from under 4% of total births now, they would rise to 8.4% in 2030.

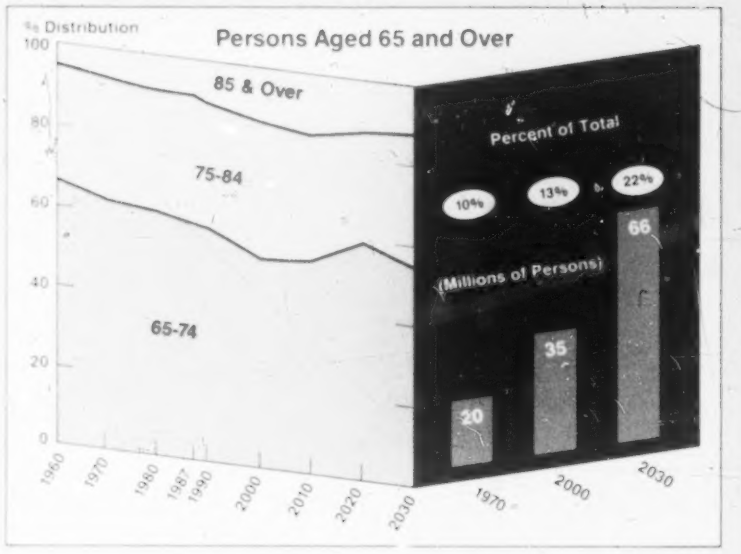
Births to teenagers are projected to decline substantially. Most of the drop will be due to the drop in the proportion of women in that age group, and not because of lower rates of child bearing among teenagers.

- Since the early 1980s more than 2 million people have died in the U.S. every year. As the baby boomers approach 65, the number of deaths will increase at a faster clip, rising to over 3 million after 2020. By 2030, the number of deaths should exceed births.
- The population pyramid chart on page one shows the large increment in the number of persons over 40—both men and women—by the year 2030. Another indicator of population aging, the median age, is already at an all-time high of 32 years and is expected to climb to 42 years in 2030. As the overall population ages, the size of the elderly popu-



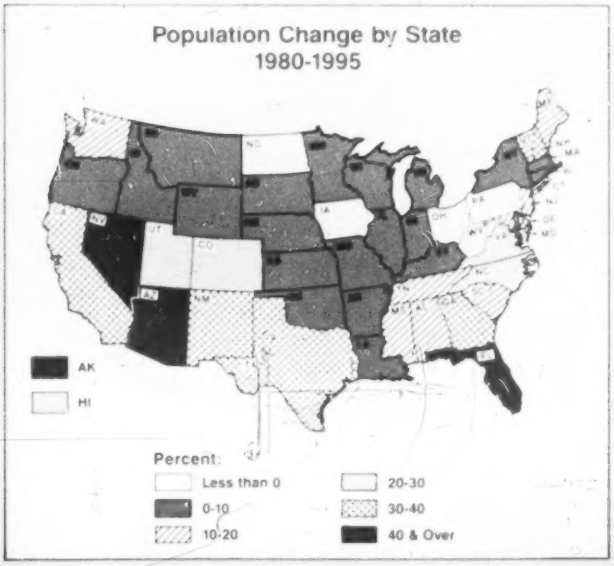


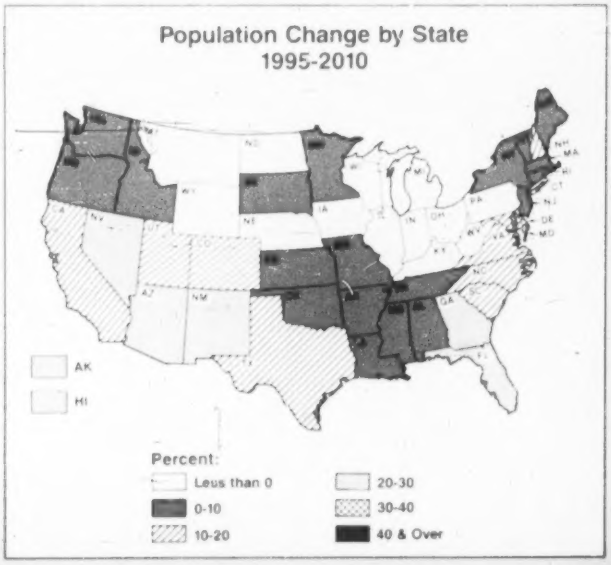


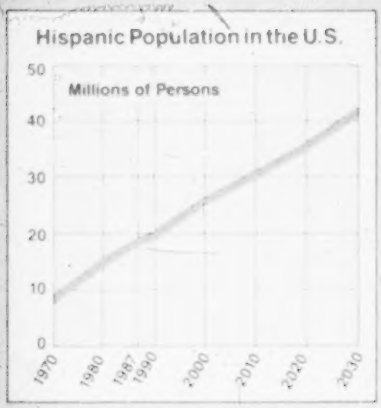


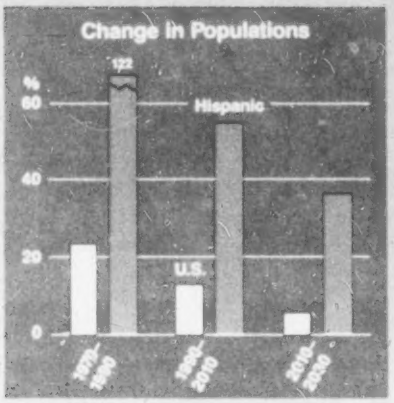
lation will also grow. The number of persons 65 and over will more than double reaching 66 million in 2030, from 30 million in 1987, and will account for almost a quarter of the total population. Those over 75 will be the fastest growing group.

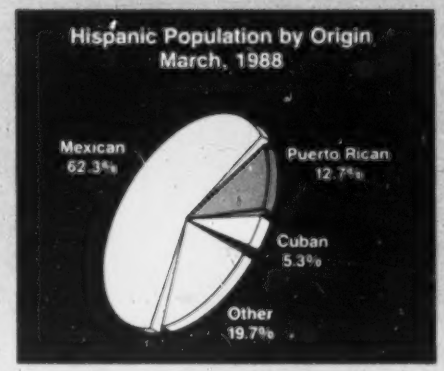
- The white population is projected to increase by 29 million over the next 40 years, peak at 235 million in 2027, and decline steadily thereafter. Against a rise of 14% in the white population, the black population is projected to grow by 50% to 45 million by 2030. The population of other races (Asians, Pacific Islanders, and American Indians) will experience the fastest growth from 8 million in 1987 to 21 million in 2030.
- On a regional basis, the South and West will continue to score the fastest population growth, but the rise during the 1995-2010 period will be slower than during 1980-1995 when states like Florida, Nevada, Arizona, and Alaska are expected to add 50% to their population. Most of the Midwest will experience population losses during the second period.
- The number of Hispanics, by far the fastest growing compo-

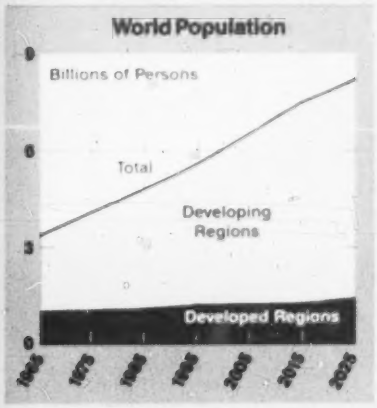








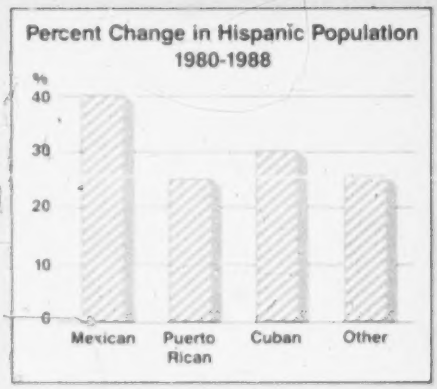


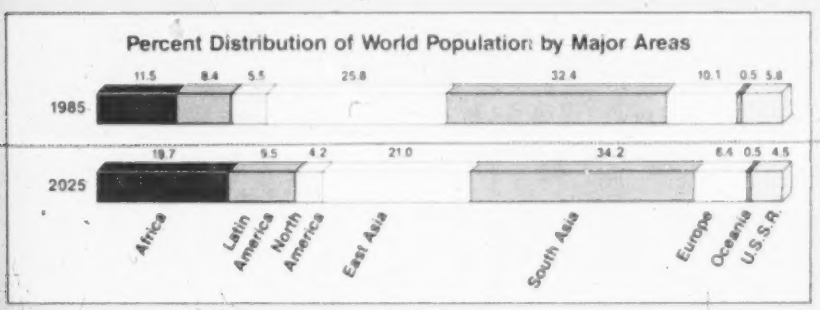


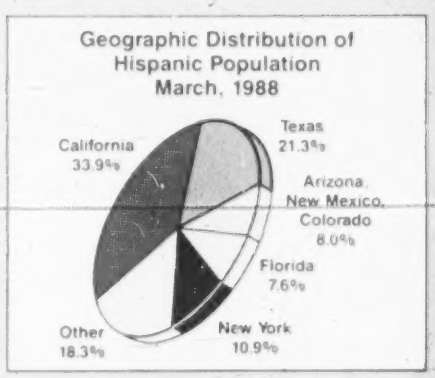
nent of the U.S. population, is projected to double within the next 30 years and to reach 42 million in 2030, accounting for 14% of the total population (from the present 7%). Three-quarters of the Hispanic population lives in California, the Southwest, and Florida.

Eva Culen

Sources: U.S. Department of Commerce; United Nations; The Conference Board.







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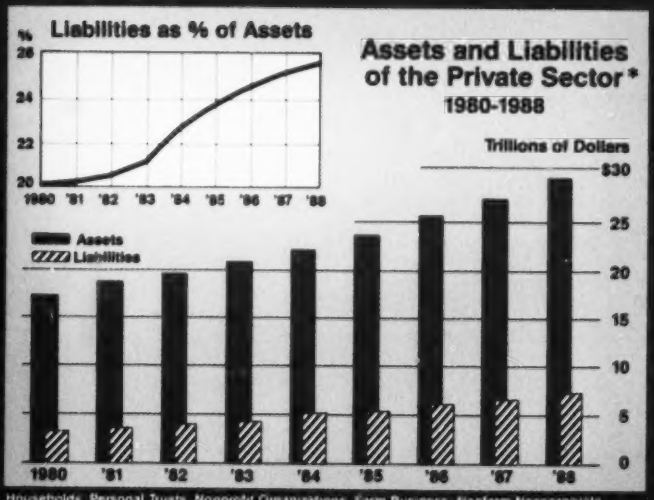
What the Private Sector Owns and Owes

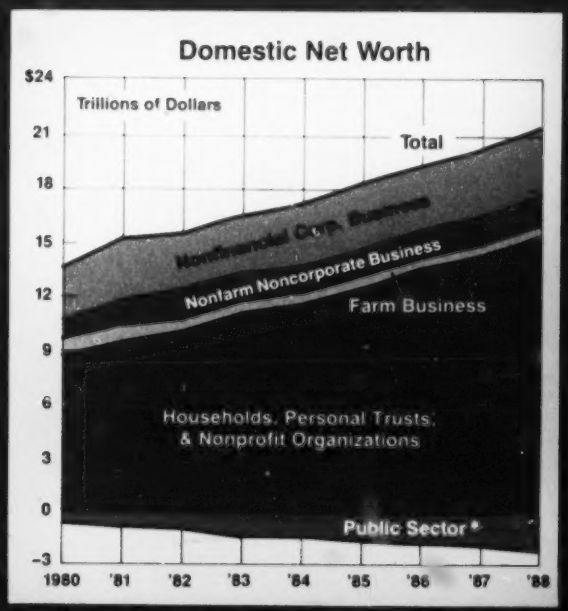
Nos. 2029-2030 August, 1989

Major trends in business and financial activity, which often concentrate on "flows" or changes in income or financial activity, are also illuminated by taking account of "stocks" or balance sheet positions. This Road Map examines the evolution of total tangible and financial assets and liabilities of the U.S. private sector during the 1980s. It considers the major components of the private sector, such as households and the nonfinancial corporate sector.

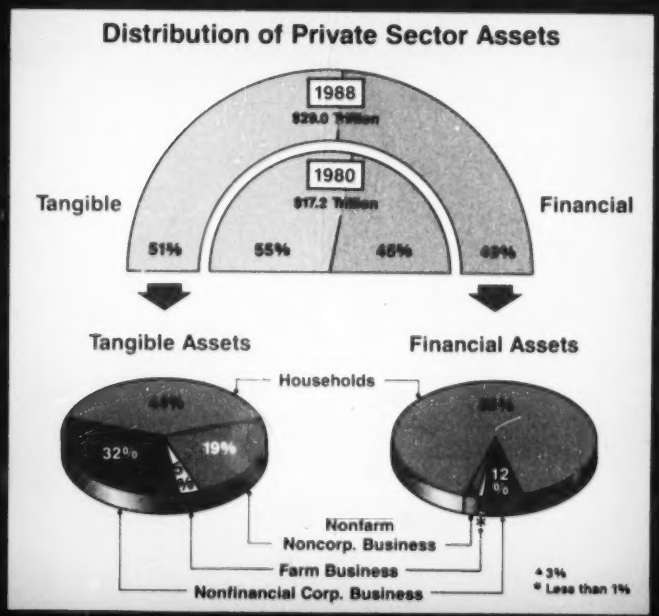
The private sector balance sheet has changed significantly during the 1980s. Despite healthy gains in assets, the debt ratio rose as liabilities grew faster than assets. Against advances of 6.7% in assets, liabilities rose 10% on average during the 1980s.



* Households, Personal Trusts, Nonprofit Organizations, Farm Business, Nonfarm Noncorporate Business, Nonfinancial Corporate Business

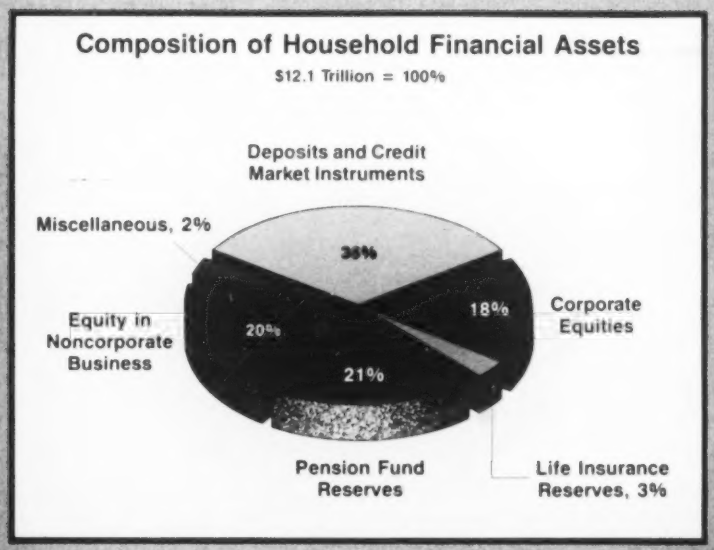


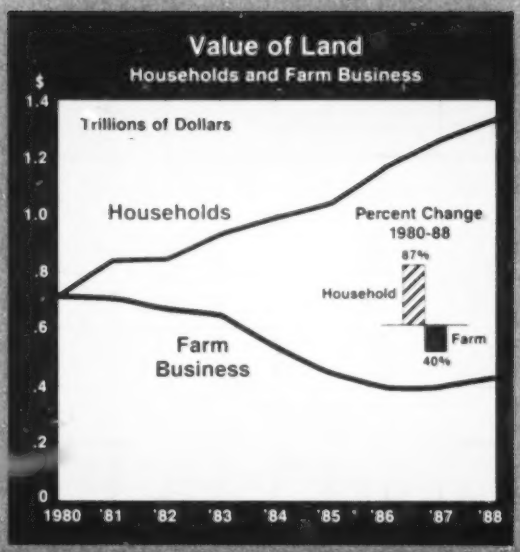
* Financial Assets less Liabilities



The private sector (consisting of households, personal trusts, and nonprofit organizations; farm business; nonfarm noncorporate business and the nonfinancial corporate business) had assets of $29 trillion at the end of 1988. Offsetting these assets were liabilities of $7.4 trillion, mainly in the form of credit market and trade debt. This left the private sector with a net worth of $21.6 trillion at the end of 1988.

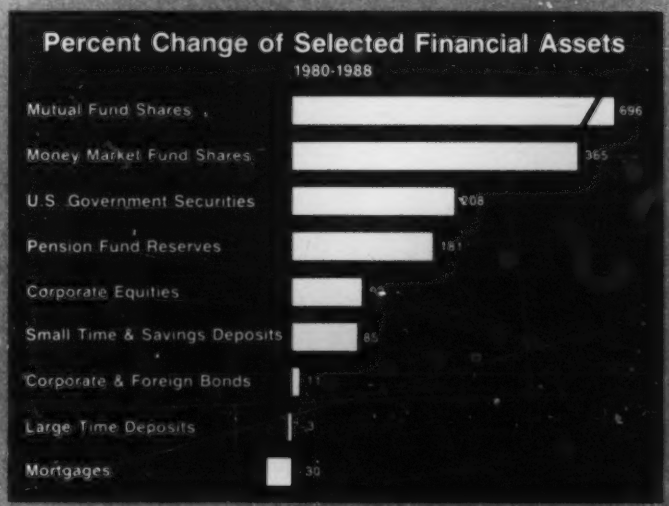
Private sector assets (on a nonconsolidated basis) are about equally divided between tangible assets, such as residential structures, plant and equipment, consumer durables, inventories and land (at market value), and financial assets consisting mostly of currency and deposits, insurance and pension claims, loans, mortgages, government securities, corporate bonds and stock, and trade credit.

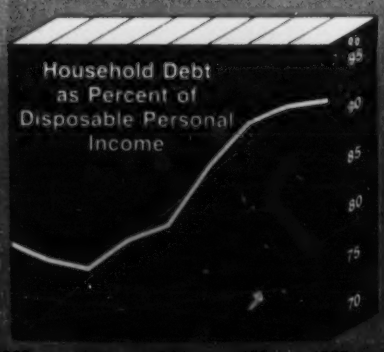


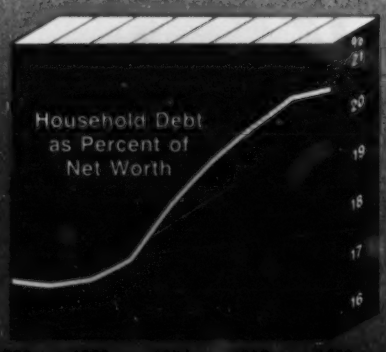


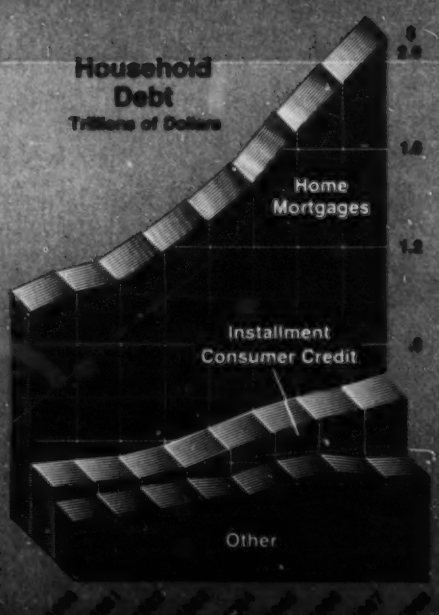
Households are by far the largest holders of assets—some $18.6 trillion in 1988, 35% of which was in tangible assets and 65% in financial assets. Housing accounted for almost one-half of tangible assets. On the debit side, home mortgages were the predominant form of debt, accounting for over $2 trillion of household liabilities. Both financial assets and credit liabilities of the household sector doubled during the 1980s, with tangible assets growing at a slower rate. The $3.1 trillion credit market debt of the household sector represented 20% of net worth of the sector in 1988 compared with 16% in 1980. Mutual fund shares were the favored financial investment of the 1980s—they rose almost 700%, followed by money market shares (365%). In dollar amounts, however, small deposits and government securities remained the predominant asset held by households.

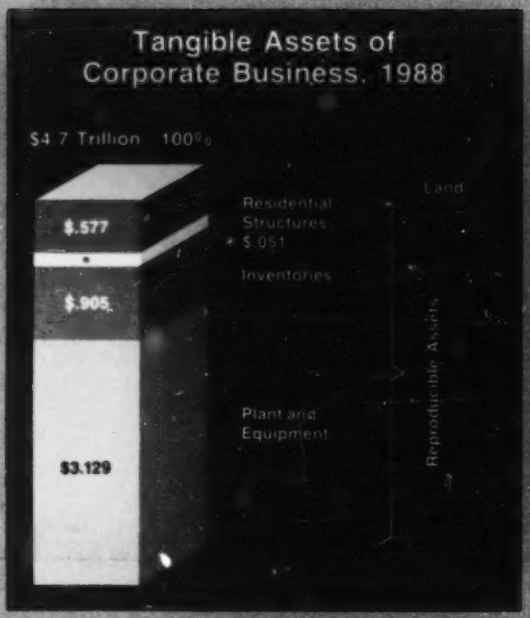
As incomes rise, consumers are willing and able to shoulder a proportionately larger debt. The liquidity position of households, or the trend in their liquid assets (bank deposits, currency, U.S. savings bonds, and money market fund shares) to total liabilities has deteriorated. Liquid assets have been growing at a rate of 8%, while liabilities have been increasing at a 10% average rate since 1980. Liquid assets represent over one-third of household total financial assets.

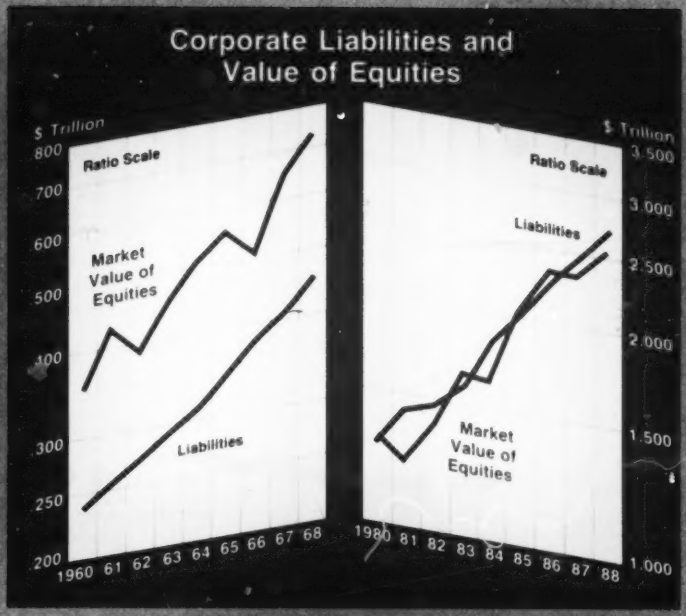






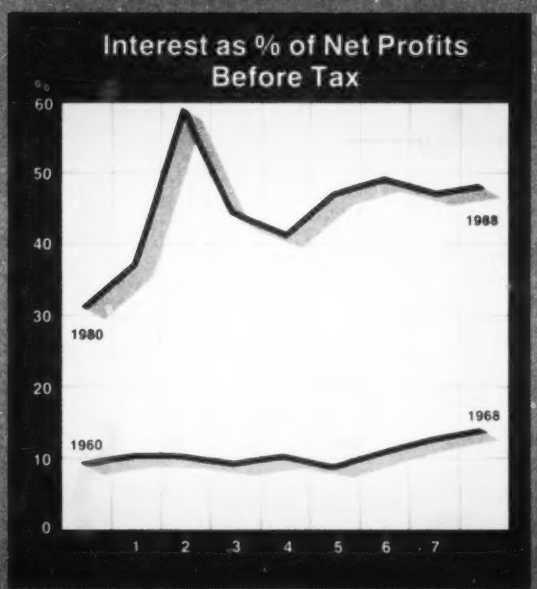


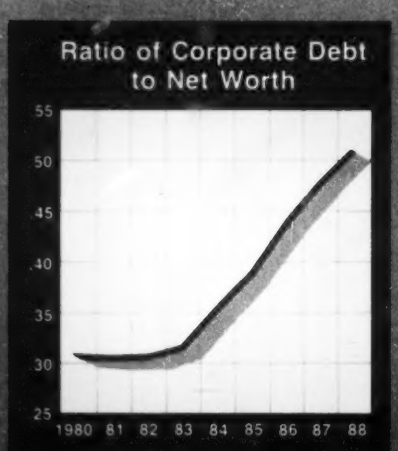


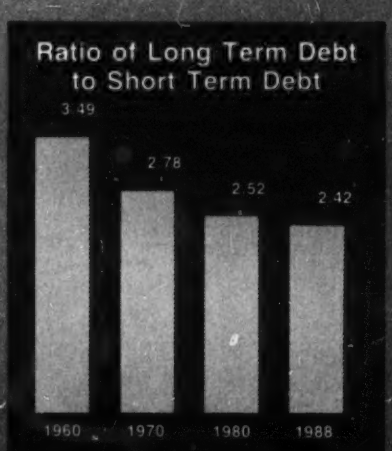


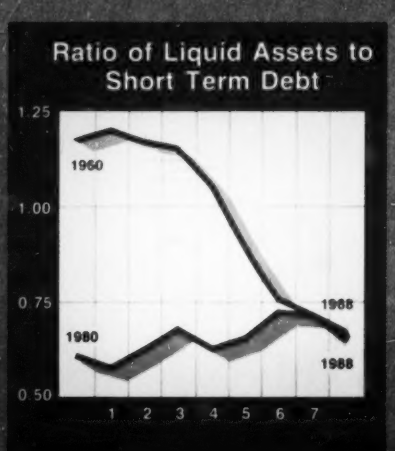
Most of the farm sector assets are in tangible form, of which land is a predominant but declining share. The farm crisis of recent years saw the value of farmers' land decline precipitously, from $712 billion in 1980 to $392 billion in 1986, stabilizing thereafter; its value today is $430.2 billion some 40% below its level of 1980. Consequently, land value today comprises 12% less of the sector's assets than in 1980. Farm assets on the whole declined 25% over the period with liabilities falling 9 percent.

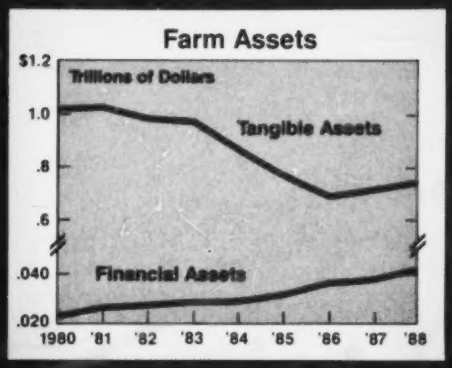
Assets of the nonfinancial corporate sector were $6.4 trillion at the end of 1988, an increase of 60% since 1980; liabilities, however, totaled $2.7 trillion or an increase of 111 percent. The ratio of liabilities to assets went from 32% to 42%, and the ratio of debt to net worth shot up to 50% from 30 percent. Interest payments consume almost half of the corporate pretax dollar today, compared with 30% in 1980, and far from the average of about 10% during 1960s. The heavy interest load limits companies' flexibility in times of recession, raising the specter of additional unemployment and plant closings.

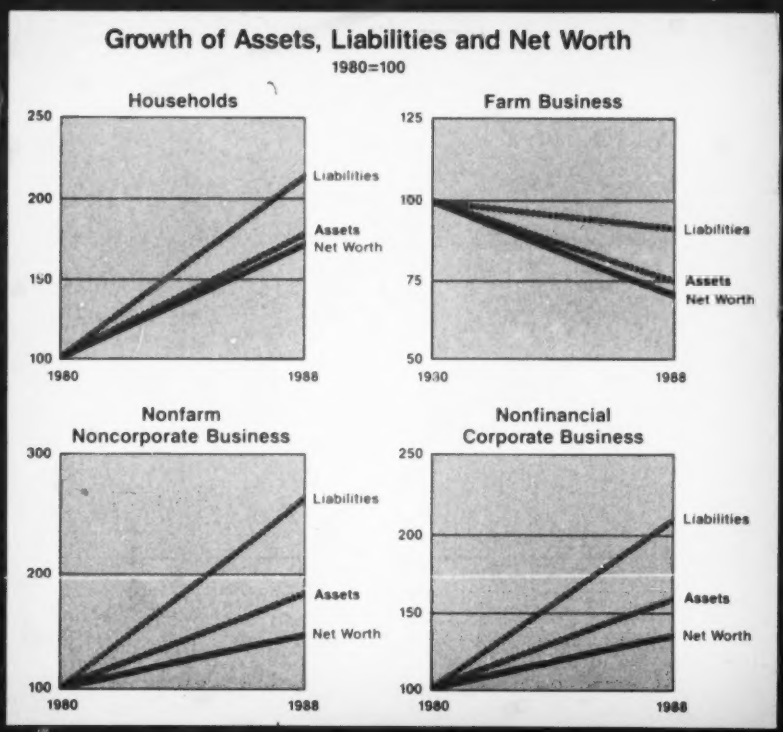


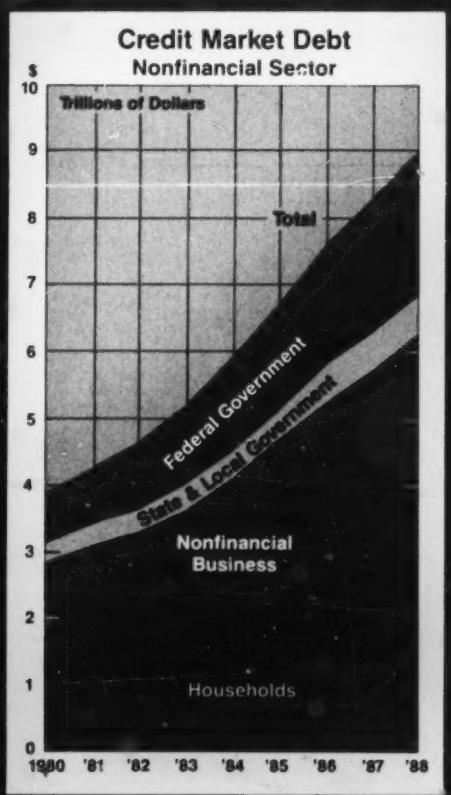


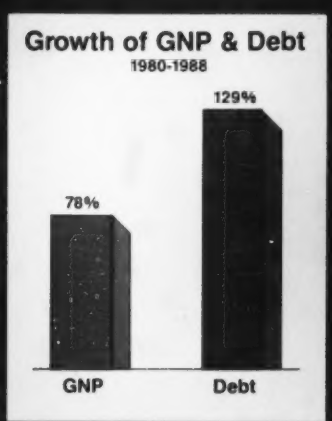












Overall, the healthy growth of the private sector's assets was offset by a more rapid growth in its debt during the 1980s. The liabilities of all sectors rose faster than their assets and net worth.

— Eva Culen

Sources: Board of Governors of the Federal Reserve System; U.S. Department of Commerce; The Conference Board.

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